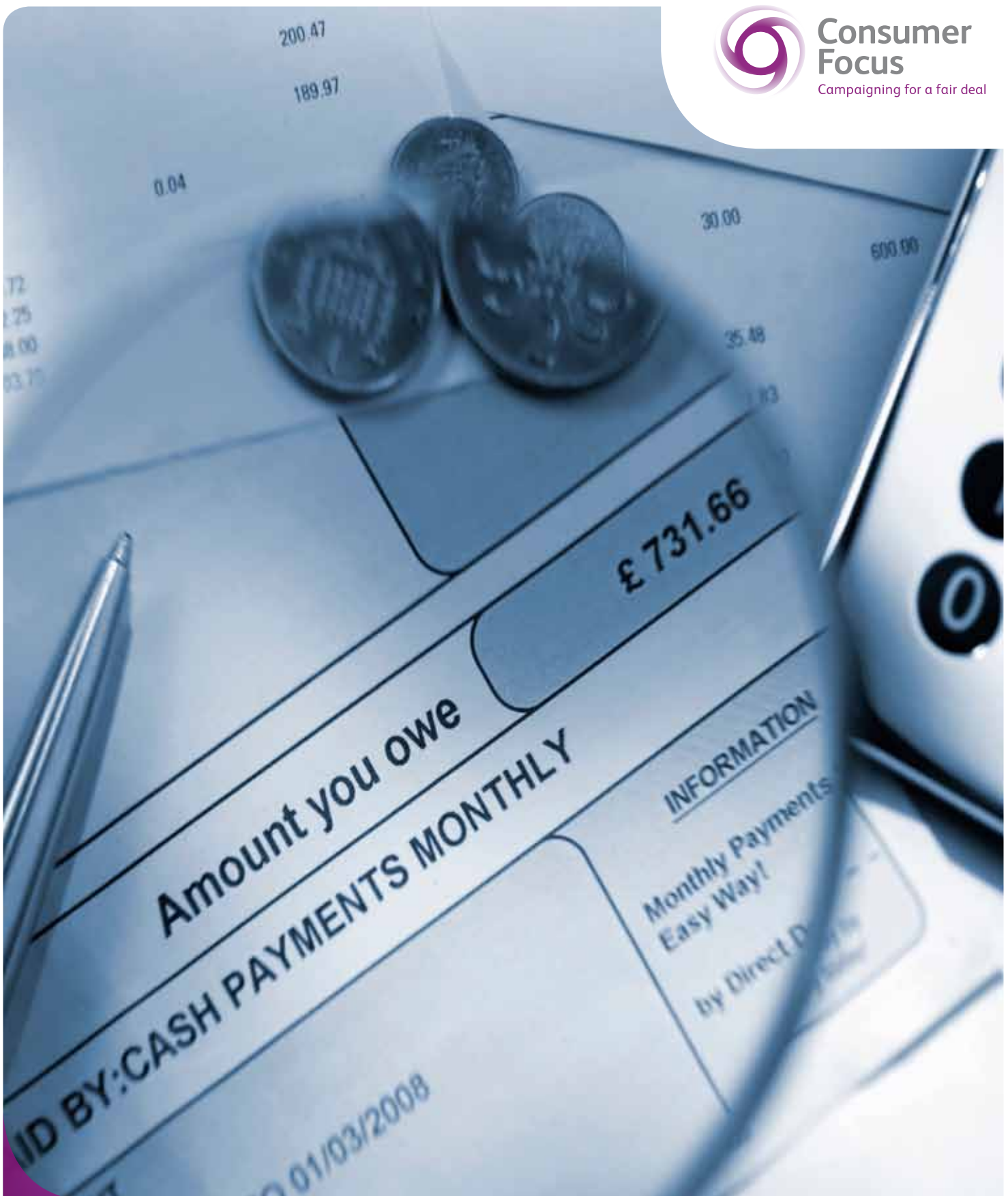




**Consumer
Focus**

Campaigning for a fair deal



On the margins

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About Consumer Focus

Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland. We operate across the whole of the economy, persuading businesses, public services and policy makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice.

We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

Report prepared for Consumer Focus by:



53 Chandos Place, Covent Garden, London, WC2N 4HS, United Kingdom

tel: +44 (0)207 627 8141

fax: +44 (0)207 900 2318

email: info@policis.comw

Society's most vulnerable people and banking exclusion

Since the early 2000s ensuring society's most vulnerable people can effectively use banking facilities for every day management of their money has been seen as key to addressing poverty and social exclusion. Without bank accounts, marginalised groups miss out on benefits such as lower utility tariffs through paying by Direct Debit.

Achievements so far

In 2007/08, 890,000 adults and 690,000 households said they did not have a bank account, one of the lowest rates of people without a bank account in Europe.¹

All of the high street banks have now introduced basic bank accounts and, in 2009, the Financial Inclusion Taskforce announced the Government and high street banks' shared goal of halving the number of adults in households without a bank account had been met.

Continuing challenges

While there has been some success, a number of significant challenges remain:

- there is a high failure rate: six in 10 of those currently without a bank account have had one in the past²
- many vulnerable consumers do not have, or are worried that they do not have, sufficient funds in their bank accounts to be able to manage facilities such as Direct Debit payments, which would reduce the 'poverty premium' they pay on utility bills
- the cost of having a bank account can lead to greater financial insecurity due to revolving credit and penalty charges

Diversity of disadvantage

Consumer Focus commissioned Policis to undertake a qualitative study with people from the most marginalised groups who remain excluded from banking. We wanted to provide fresh insights to ensure that their needs can be recognised, understood and addressed.

Finding solutions to the problems faced by the most vulnerable consumers can provide valuable lessons in how to extend banking and other financial services to the wider population.

Policis conducted 50 face-to-face in-depth interviews with individuals in England, Scotland and Wales during January and February 2010, including:

- those experiencing disruptive life events, eg bereavement, bankruptcy or job loss
- people who are homeless
- new migrants, recently arrived in the UK
- long-established residents from minority ethnic groups
- adults with mental health problems
- adults with learning disabilities
- ex-offenders
- women fleeing domestic violence
- users of loan sharks

Five of the adults with learning disabilities had been helped to open an account and, in some cases, supported to use them by support workers or parents.

¹ Financial Inclusion Taskforce *Fourth Annual Banking Report HM Treasury*, 2009

² Policis, 2010, forthcoming

Society's most vulnerable people and banking exclusion

Our research focuses on the most vulnerable people without bank accounts. Finding solutions to the specific issues these people face can provide valuable lessons in how to extend banking and other financial services to the wider population without bank accounts.

The people behind the labels

While we are looking specifically at those from marginalised groups in society, they have much in common with those in the general population who do not have bank accounts.

Many live in temporary or insecure situations and very few are in paid employment, although many have had steady jobs in the past. Their income is usually extremely low and often eroded by additional costs associated with their circumstances.

Many are dealing with serious, problem debt that they have been struggling to repay over several years. A high proportion do not receive the welfare benefits or other income, eg child maintenance payments, to which they are entitled, and do not receive any support or advice that could help improve their circumstances.

Some women without bank accounts are dealing with personal financial management for the first time having always relied on a partner or because they are fleeing an abusive relationship. Some women are also suddenly finding themselves responsible for a partner's debt.

Many of those in our research were suffering severe financial difficulties as a direct result of having unsuccessfully managed a bank account in the past. We also found the degree of crossover between the categories of people in our research striking: many were experiencing multiple vulnerability factors, which significantly compounded the difficulties they faced. Some people from marginal groups are potentially more vulnerable once they have a bank account: including those with mental health problems, fleeing abusive relationships, or using loan sharks.

Barriers to opening a bank account

Society's most vulnerable people face a number of barriers when trying to open a bank account. These barriers can be categorised into three groups: practical issues, attitudes to banks and banking, and the structure and pricing of banking products. Our research looked at each of these in detail.

Practical issues

- *Identification* remains a key barrier to banking, especially for new migrants, ex-offenders and homeless people
- *Language barriers* can be significant, in particular for new migrants and women from minority groups
- *Literacy problems* affect the ability to cope with written information
- *Financial capability* is an issue for many, although not all
- *Legacy debt* is often still being repaid or has resulted in a poor credit rating
- *Lack of support* will mean that many find it difficult to make a move into banking and then efficiently sustain a bank account

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Attitudes to banks and banking

- *Negative attitudes* towards banks and banking remain prevalent, with widespread mistrust of banks and a sense that 'banking is not for me'
- *Poor previous banking experience* means considerable reassurance is needed to overcome real and justified fears
- *Lack of perceived need* means a significant proportion are happy operating a cash budget, manage their money successfully, and are satisfied with a Post Office Card Account (POCA) for benefit payments and withdrawals
- *Resistance to unfamiliar technology*, including the use of ATMs, plastic cards and the need to remember PIN numbers, can deter some people from having a bank account
- *Fear of fraud and ID theft* are also cited as a reason not to have a bank account

The structure and pricing of banking products

- *There are considerable risks and additional costs* created by having a bank account for people who are least able to manage them
- *Lack of transparency* in account-based transactions, especially for people used to the security and visibility of a cash budget, undermines budgetary control and planning
- *Access to and, real or perceived,* encouragement to use revolving credit and Direct Debits can result in a build-up of unmanageable debt, compounded by interest payments and penalty charges

- *Penalty charges from failed Direct Debits* can rapidly exceed any cost savings resulting from access to cheaper utility tariffs

Research outcomes

As a result of the interviews, it was established that marginalised people without bank accounts can be grouped into five broad categories. Identifying these categories allows for better-targeted solutions that address the specific issues each category faces and can also have wider applications.

The five categories of vulnerable consumers are outlined below.

1. People who have recently opened a bank account and are realising the benefits with support

These are adults with learning disabilities who have been supported to move into banking by care workers and/or parents. Their ability to use their accounts and make financial decisions is varied, and some require a high degree of support. They all view having a bank account (which offers features such as direct debits or standing orders) as a positive step, and some have chosen the wider functionality of bank accounts over a POCA which is used for benefits payments and withdrawals.

2. Struggling for stability

This category includes those who have not yet been able to achieve a stable lifestyle or financial security such as new migrants, without formal employment or benefit entitlement, and lacking the necessary ID to open a bank account. Others in this category include young people and ex-offenders with precarious circumstances often due to mental health problems, dependency on drugs or alcohol and homelessness. Many in this category have a

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POCA, although not all are claiming benefits and some are dependent on friends and family for support. Some aspire to having a bank account.

3. Moving in and out of stability

These people have been struggling for some years, often as a result of mental health problems or addictions. The category includes ex-offenders who have had repeated periods in custody; and single parents, often not receiving agreed child maintenance, and simply striving to keep their heads above water. The factor that distinguishes this category of people is they have repeated periods of instability, during which their financial and life circumstances deteriorate, often severely. Many have had bank accounts in the past but their financial circumstances spiralled out of control, made worse by access to revolving credit and penalty charges, and led to serious and on-going debt. Most have POCAs, some use loan sharks. This group tends to be happy with the stability provided by a cash budget.

4. Without a bank account following a crisis

This category is characterised by those experiencing either a financial or major life crisis. A financial crisis, perhaps due to job loss or mental health problems, has affected spending patterns, the ability to make ends meet, or, in a few cases, led to over-borrowing and unmanageable debt. A major life crisis, such as the death of a partner, relationship breakdown or the onset of a serious illness or disability, can lead to the loss of a bank account. Some in this category have become liable for debts, of which they were previously unaware, from a partner. All of this group have successfully had a bank account in the past, often for many years. A few turn to loan sharks out of desperation. This group is generally keen to move back into banking, although many have reservations.

5. Long-term disengaged from banking

This category includes those in middle age or older who choose not to have a bank account. These are mostly women who have relied on their husbands to deal with banking and financial transactions. They have never adapted to account-based money management and have an established tradition of cash budgeting that they have no desire to change. There are also those, usually women, who are socially isolated and disconnected from many aspects of mainstream society. Some are from minority ethnic groups, speak little English and have relied on male family members to handle all the finances. Others are women who have recently fled from a violent partner who previously controlled their finances. It also includes ex-offenders with long histories of repeated prison sentences followed by periods without formal employment or claimed benefits.

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The way forward

Many of the people we interviewed would like to have a bank account, despite the barriers they face. Their core banking needs are for convenient and local access; flexible, transparent and risk-free payment facilities; a risk-free, small scale overdraft facility or buffer zone; and access to savings and insurance products. Indeed, they are much the same needs as the general population.

There are two distinct areas of concern:

- The 'poverty premium' means not using Direct Debits and other banking facilities result in extra costs for poor people
- The structure and pricing of banking products can act to exclude vulnerable people. An insensitive approach to penalty charging can undermine hard-won financial stability

The key challenge is to deliver banking services to society's most vulnerable in a way that mitigates costs and risks. Consumer Focus has identified a range of solutions – a number of which will apply to all consumers without bank accounts.

Recommendations

For the long-term disengaged from banking

Many of these consumers are unlikely to desire or benefit from a move into banking since, for some, cash is an appropriate method of money management. These consumers require further debate about:

- a clear goal for banking inclusion
- a wider range of services available through post offices³

For those struggling for stability and people with learning disabilities

- Tailored practical support including face-to-face assistance
- ID requirements that do not exclude those without stable lifestyles
- Information available in appropriate languages and formats

For people who move in and out of stability or are without a bank account following a crisis

- Bank staff should be trained to spot patterns of, or sudden changes in, banking behaviour that indicate the need to intervene to prevent difficult situations being compounded by access to revolving credit and penalty charges
- Banks should be obliged to point those in difficulty to independent debt, welfare benefit or financial advice

For all those with a new bank account, especially those from marginalised groups

- There should be safeguards against people being channelled towards accounts and facilities without being fully aware of associated risks
- The initial period after opening an account should be carefully managed
- A safety net must be in place to ensure banks actively and quickly identify problems and prevent a build-up of penalty charges or unmanageable debt
- On-going active support is required as many people become overwhelmed in the face of financial difficulties and are extremely unlikely to initiate contact to solve issues. People who are vulnerable to exploitation may be unaware of problems with their account or unable to take action to resolve them

See also Opportunity Knocks, Consumer Focus, 2010

Consumer Focus
Artillery House
Artillery Row
London SW1P 1RT

t: 020 7799 7900
f: 020 7799 7901
e: contact@consumerfocus.org.uk
www.consumerfocus.org.uk

Media team: 020 7799 8004/8005/8006

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If you have any questions or would like further information about our research, please contact Marie Burton, Senior Policy Advocate, by telephone on 020 7799 7992 or via email marie.burton@consumerfocus.org.uk

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From a textphone, call 18001 020 7799 7900

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